China’s e-commerce sector has and will continue to attract the world’s attention with its explosive growth and transformative effect on the retail landscape. Changes in consumer preferences and the emergence of innovative technologies and new business models have provided a strong impetus for the growth of the sector. In recent years, e-commerce is increasingly intertwined with physical retailing. Many retailers and brands have ventured into omnichannel retailing or online-to-offline (O2O) integration. Physical retailers have ramped up efforts to improve their digital platforms, while growing numbers of online retailers and e-commerce players have opened offline stores or partnered with offline retailers to provide better shopping experience. At the same time, new e-commerce business models are quickly evolving to cater the new consumer demand.

I. Market overview

1. China’s e-commerce market scales up

The e-commerce market in China has continued to grow rapidly and became a major growth driver of China’s economy. According to the Ministry of Commerce (MOFCOM), the total transaction value of China’s e-commerce market reached 29.2 trillion yuan in 2017, up 11.7% year-on-year (yoy) (Exhibit 1).
2. **SME’s B2B represents the lion’s share of total transaction value of China’s e-commerce market; Alibaba remains the most popular SME’s B2B platform**

Small and medium-sized enterprise (SME)’s B2B platform plays an important role in connecting manufacturers and industrial buyers and sellers online. It offers a more convenient and time-saving way of conducting business for many SMEs. According to 100ec, among the SME’s B2B platform players, the most popular ones include Alibaba, HC360, and Global Sources, accounting for 36.7%, 10.5%, and 4.2% of the total market share respectively in 2017 (Exhibit 2).

**Source:** MOFCOM; compiled by Fung Business Intelligence

![Exhibit 1: Transaction value of China’s e-commerce market, 2012 – 2017](chart)

**Source:** 100ec; compiled by Fung Business Intelligence

![Exhibit 2: Market share of China’s major SME’s B2B operators by revenue, 2017](chart)

**Source:** 100ec; compiled by Fung Business Intelligence
With the competition among SME’s B2B platforms getting tougher, it is increasingly difficult to standout from the competition by solely providing matching services for buyers and sellers. Hence, many SME’s B2B platforms are actively moving from purely matching businesses to providing value-added services such as logistics, payment, and financial services. Some SMEs are also collaborating with searching engines, social media platforms, third-party payment providers, etc. to create a one-stop solution along the supply chain. Pursuing mobile strategies has been one of their focuses in recent years.


**Transaction value of online retail market enjoys resilient growth**

China’s online retail market, which comprises the B2C and C2C segments, is the largest in the world; it has shown resilient growth despite the slowing economy. According to the National Bureau of Statistics of the PRC (NBS), the transaction value of China’s online retail market increased 32.2% yoy to reach 7.18 trillion yuan in 2017 (Exhibit 3). Of this transaction value, the online retail sales of goods amounted to 5.48 trillion yuan, up by 28.0% yoy, accounting for 15.0% of the total retail sales of consumer goods.

**Exhibit 3: Transaction value of China’s online retailing market, 2012 – 2017**

Source: National Bureau of Statistics of the PRC, Ministry of Commerce; compiled by Fung Business Intelligence
China’s huge Internet population drives online sales growth

The fast growth of the online retail market is attributable mainly to China’s large population of Internet users and the early adoption of online shopping by Chinese consumers. China has the world’s largest number of Internet users and online shoppers, contributing significantly to the phenomenal growth of the sector. As of December 2017, there were 772 million Internet users in China, of which 533 million were online shoppers. Internet penetration rate in China was 55.8% as of December 2017, while Germany, U.S., U.K., Japan, France and Italy have Internet penetration rates of over 90% (Exhibit 4). China still lags behind many countries in terms of Internet penetration, reflecting the high growth potential of the market. The number of Internet users in China further increased to 802 million as of June 2018, with 569 million online shoppers; while 788 million people use mobile phones to access the Internet; of these, 557 million are mobile online shoppers.

Exhibit 4: Internet penetration rates of selected countries, December 2017

Source: Internet World Stats; China Internet Network Information Center; compiled by Fung Business Intelligence
M-commerce takes the lead

Chinese consumers have been overwhelmingly using mobile devices to access the Internet. According to the China Internet Network Information Center (CNNIC), 788 million people use mobile phones to access the Internet as of June 2018; of these, 569 million are mobile online shoppers. Penetration rate of mobile shopping increased to 70.7% in June 2018. Mobile commerce (m-commerce) has gained market share at the expense of PC-based transactions over recent years. The rise of budget smartphones, such as Huawei, Oppo, and Vivo, has brought mobile connectivity to most parts of China. With the aid of mobile devices, consumers can have real-time interactions with retailers, and enjoy convenient shopping experience anytime and anywhere. The mobile platform is now a highly significant sales and market channel. 81.3% of the online shopping transactions were made on mobile devices in 2017 and total transaction value of mobile shopping reached 4.9 trillion yuan (Exhibit 5). The total transaction value of mobile shopping is estimated to exceed 6 trillion yuan in 2018.

Exhibit 5: Transaction value of mobile shopping, 2012 – 2020 (estimates)

Source: iResearch; compiled by Fung Business Intelligence
* Estimated figures
Share of B2C segment increases steadily; Tmall remains the market leader

According to iResearch, the B2C segment has exceeded the C2C segment in terms of market share. In 2017, B2C and C2C segments accounted for 60.0% and 40.0%, respectively, of the total transaction value of online retailing in China (Exhibit 6).

In 2017, Tmall remained the leader in the B2C market; accounting for 57.0% of the total market, followed by JD.com with 25.5% market share (Exhibit 7).

Source: MOFCOM, iResearch; compiled by Fung Business Intelligence
* Estimated figures

In 2017, Tmall remained the leader in the B2C market; accounting for 57.0% of the total market, followed by JD.com with 25.5% market share (Exhibit 7).

Source: MOFCOM, iResearch; compiled by Fung Business Intelligence
Apparel and daily necessities are the most frequently categories bought online

According to iResearch, apparel and daily necessities were the two most frequently bought categories online in 2017, accounting for 27.4% and 20.4% of the market share respectively, followed by food and beverages (13.6%) and home products (9.8%) (Exhibit 8).

Eastern China dominates in terms of online transactions made

According to the MOFCOM, Eastern China accounted for 85.3% of the total online retail sales, much higher than Central China (8.2%), Western China (5.4%) and Northeast China (1.1%). Among the provinces in Eastern China, online transactions made in Guangdong, Zhejiang, Shanghai, Beijing and Jiangsu accounted for 74.8% of the total. (Exhibit 9).
Young consumers are the major driving force for the e-commerce market

Online shopper aged between 19 and 39 accounted for over 70% of the total in China (Exhibit 10). They grew up with the Internet and embraced the Internet more wholeheartedly than the older generations.

Exhibit 10: Online shoppers by age group, May 2018

Source: iResearch; compiled by Fung Business Intelligence
4. **Widespread use of third-party online payment and mobile payment drives the growth of e-commerce market**

The widespread use of third-party online payment and mobile payment has driven the growth of China’s e-commerce market. In 2017, third-party online payment services in China achieved a total transaction value of 15.5 trillion yuan, soaring 44.3% yoy from 2016 according to iResearch. There are three major categories of third-party payment companies, including (1) Internet companies’ online payment channel (e.g., Alipay, Tenpay); (2) companies from traditional financial institutions (e.g., UnionPay Online); and (3) pure third-party online payment companies (e.g., Yeepay). Currently, the third-party payment market in China is dominated by Alipay\(^1\), followed by Tenpay\(^2\) and UnionPay Online\(^3\) (Exhibit 11). According to a research by Tencent and Ipsos Research in August 2017, more than 52% of Chinese use cash for only 20% or less of their monthly consumption.

![Exhibit 11: Market share of third-party online payment services, 3Q17](source)

*Source: iResearch; compiled by Fung Business Intelligence
*Note: includes WeChat Pay and QQ Wallet
II. Key trends and developments

1. E-commerce giants strive to increase offline presence and expand their ecosystems

With the rise of omnichannel retailing, on the one hand, bricks-and-mortar retailers are pursuing digital expansion to provide seamless shopping experience for customers; on the other hand, e-commerce giants are actively penetrating offline retailing with the idea of perfecting their physical networks and further expanding their business ecosystems.

Recently, Alibaba and JD.com, in particular, have accelerated the pace of their offline expansion by merging with or acquiring physical retailers. Both Alibaba and JD.com hope to build an all-encompassing business ecosystem that fully blends online and offline channels so as to become ubiquitous and indispensable in the daily life of all Chinese consumers.

**Alibaba**

Alibaba Group is the largest online and mobile commerce company in the world in terms of gross merchandise volume (GMV), reaching 3,767 billion yuan in 2017. Alibaba has started to make sizable investments in China’s physical retail sector in 2015, when it took a 19.99% stake in electronics retailer Suning.com. Thereafter, the company unveiled the “New Retail” concept that calls for the seamless integration of online and offline retail to better serve customers through digital and mobile technology. Since then, Alibaba has invested billions in companies around the world – home appliances chains, grocery chains, shopping malls and home products industry, covering almost every retail formats. Nowadays, Alibaba Group is composed of dozens of business entities, including online payments, cloud services, mobile apps, mobile operating systems, maps, retail outlets, group buying, cloud storage, mobile messaging, car service, music streaming and much more (Exhibit 12).

**JD.com**

Taking a similar approach as Alibaba, its biggest rival JD.com is also pursuing a similar strategy under the banner of “Unbounded Retail”. JD.com has also been aggressively expanding its scope of business and ecosystem through forming partnerships with companies in various sectors. For instance, through in-depth cooperation with different media platforms such as Tencent, Baidu and NetEase, JD.com hopes to capture more customers and obtains big data of consumers from the new access points of the popular media channels. Besides, JD.com has launched 7FRESH, JD Unmanned Supermarket, JD Convenience Store, etc. as part of its bricks-and-mortar and smart retail strategy. Through its collaboration with Tencent, JD.com has also tapped into the social e-commerce arena. Besides, it has partnered with VIPshop and Yihaodian for resources integration, and formed alliances with apparel brands such as HLA and Hodo Group to build an apparel ecosystem (Exhibit 13).
Exhibit 12: Alibaba’s ecosystem (key selected business arms and units)

Source: Fung Business Intelligence
Exhibit 13: JD’s ecosystem (key selected retail entities under JD.com)

Source: Fung Business Intelligence
2. Social-commerce becomes increasingly popular, especially in lower-tier cities

Social commerce has come into China’s e-commerce scene in recent years. Eying the high level of consumer penetration by social media platforms such as WeChat, Weibo, various live-streaming and short video platforms, brands and retailers are trying to sell via these social media channels and transform shopping into a much more entertaining and recreational experience. In recent years, many brands have set up stores on WeChat Mini Program to promote and sell their products. Carrefour China revealed that the number of Carrefour WeChat Mini Program users has exceeded 8 million in August 2018, and is set to continue to grow rapidly.

Meanwhile, the online group-buying market – which mainly leverages on spending via social media platforms – has gained increasing attention in recent years. Pinduoduo, a popular social commerce/group-buying platform, is a case in point. Founded in September 2015, Pinduoduo reaches out to customers via its own app and WeChat Mini Program. It provides group buying offers at reduced prices through its unique “team purchase” model; shoppers can join or initiate a team purchase, and invite their friends on WeChat to join to enjoy lower prices and further discounts. Pinduoduo’s unique social approach to e-commerce has underpinned its growth, especially in lower-tier cities and rural areas. According to eMarketer, as of April 2018, it has risen to become the third largest e-commerce player in China with 5.2% market share, following Alibaba (58.2%) and JD.com (16.3%). Pinduoduo was listed on NASDAQ Stock Market on 26 July, 2018, raising US$1.63 billion. The deal is one of the largest Chinese tech IPOs of the year in the U.S.

JD.com also set up a group buying platform “JD Pingou” in June 2018, allowing individual merchants to set up stores to sell their products. At present, the categories that have been opened to individual merchants include apparel and underwear, sportswear, footwear, jewelry, watches, home textiles, and home furnishings. JD Pingou aims to leverage group-buying and social-selling among merchants on JD.com to drive more foot traffic and generate sales. Alipay also launched a group-buying function on Alipay’s homepage in August 2018. It offers group-buying deals within limited time, and the deals will be changed regularly. The goods from the group-buying offers come from different Taobao merchants, covering more than ten categories including daily necessities, food, and apparel. Prices for the group-buying offers are generally lower than the prices on Taobao; some of the offers may have discounts as low as 50%. Consumers can either initiate a group-buying deal and ask their friends to join, or they can simply join the deals that are set up by others. Taobao will also recommend deals to users according to their purchasing behavior on the platform.
3. Short video platforms facilitate digital marketing

Short video streaming platforms have become an increasingly popular channel for marketing. For instance, Suning launched its short video streaming platform “Touhao Maijia” in August 2018. The new channel is an exclusive channel for customized products, with different themes for buyers periodically. By integrating resources of brands and retailers, media, and veterans into one single platform, Internet KOLs and individual sellers can recommend products through video streaming, while viewers can share easily among their friends. The channel will cover various product categories including beauty, home products, baby and maternity products, FMCG and home appliances. Taobao also launched its short video app “Luke” in September 2018. Luke is a short video app focusing on customers’ sharing of their shopping experience, which in turn will inspire others to discover new and innovative products, people and things. It offers shopping guidance for users and supports real-time interaction between users and their viewers. Users can post questions in their short videos, viewers can answer the questions or they can share the questions to other viewers. The short videos on the platform are usually 15-20 seconds long; some of them may direct the viewers to the Taobao shopping websites.

At the same time, some brands are leveraging popular third-party short video platforms such as Douyin to market their products. Douyin is now available in over 150 countries and regions; it has become one of the most popular short video apps among the youngsters globally especially in Asian countries such as Thailand, Japan, Indonesia, India and Vietnam. To reach out to more young consumers, brands are collaborating with Douyin to promote and market their products. Many renowned global brands such as Michael Kors, Adidas neo and Dior have launched marketing campaigns on Douyin. For example, in November 2017, Michael Kors initiated a “City catwalk” hashtag challenge by sharing videos of its brand ambassadors Yang Mi and Mark Chao, as well as three Douyin in-house KOLs doing a catwalk with Michael Kors products. It is estimated that more than 30,000 users had posted their own 15-seconds catwalk videos using the hashtag, generating more than 200 million views and 85 million “likes” from the viewers.
4. E-commerce players and Internet giants launch their own private labels

Along with the trend of consumption upgrading, more and more e-commerce companies and Internet giants have taken bold initiatives to launch their own private labels in order to offer consumers quality, premium and personalized products and services. Key players such as NetEase, Alibaba, JD.com, Tencent, Xiaomi, Mia.com and Suning.com have launched their private labels one after another, while some of them have even set up physical stores to sell their own private labels. Many of these private labels focus on lifestyle products, targeting mainly young consumers who look for high quality products with good design and value. They often market their private label products as made by manufacturers of big brands via the ODM (Original Design Manufacture) model.

NetEase Yanxuan is a prime example. It is an e-commerce private label launched by Internet company NetEase in 2016. With a slogan of “a better life doesn’t have to be costly”, NetEase Yanxuan is dedicated to help build a more affordable yet quality life to young consumers. Its portfolio now covers over 10,000 products across ten categories, ranging from home products, home textiles, kitchen ware and household appliances to daily life consumption products such as body & hair care, basic items of apparel, among others. NetEase adopts the ODM model through which it partners with big manufactures to design and produce the products.

Similarly, Alibaba launched its own private label retail site Taobao Xinxuan in 2017 and opened its first offline concept store in Hangzhou in April 2018, the second store in Shanghai in June and the third one in Wenzhou in August. The stores sell mainly lifestyle and functional daily necessity goods and travel accessories. JD.com also rolled out its own private label platform under the Jingzao brand in January 2018. But neither company has come close to Yanxuan in terms of scale of the private labels. Another example is leading smartphone company Xiaomi. It launched an e-commerce marketplace Youpin by Xiaomi in April 2017 to offer Mi-branded products as well as other high-quality products curated and sourced by the company. Exhibit 14 shows selected examples of private labels launched by e-commerce players and Internet giants and Exhibit 15 summarizes their business models and key features.
Exhibit 14: Selected examples of private labels launched by e-commerce players and Internet giants

- NetEase Yanxuan
- Taobao Xinxuan
- Jingzao
- Youpin by Xiaomi
- Suning Jiwu
- Yinxuan

Source: Fung Business Intelligence
<table>
<thead>
<tr>
<th>Yanxuan</th>
<th>Taobao Xinxuan</th>
<th>Jingzao</th>
<th>Youpin by Xiaomi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Launched by</strong></td>
<td>NetEase</td>
<td>Alibaba</td>
<td>JD.com</td>
</tr>
<tr>
<td><strong>Launched date</strong></td>
<td>April 2016</td>
<td>May 2017</td>
<td>January 2018</td>
</tr>
<tr>
<td><strong>Number of offline stores</strong></td>
<td>1</td>
<td>3</td>
<td>Dedicated sales areas inside 1,000 JD Home and JD Home Appliance stores</td>
</tr>
<tr>
<td><strong>Store locations</strong></td>
<td>Hangzhou</td>
<td>Hangzhou, Shanghai, Wenzhou</td>
<td>Nationwide</td>
</tr>
<tr>
<td><strong>Business models</strong></td>
<td>ODM</td>
<td>Self-operated platform + C2M business model</td>
<td>ODM</td>
</tr>
<tr>
<td><strong>Product sources</strong></td>
<td>Manufacturers serving top brands</td>
<td>Sourced by Alibaba</td>
<td>Trusted manufacturers from different sectors</td>
</tr>
<tr>
<td><strong>Brand owner</strong></td>
<td>Yanxuan</td>
<td>Taobao Xinxuan</td>
<td>Jingzao</td>
</tr>
<tr>
<td><strong>Product features</strong></td>
<td>High-quality, value for money lifestyle products</td>
<td>Low price lifestyle products</td>
<td>High-quality and good value products and mass products with good quality</td>
</tr>
<tr>
<td><strong>Product categories</strong></td>
<td>Over 10,000 SKUs covering 10 categories (e.g. home products, kitchen products, apparel, electronic appliances, personal care products)</td>
<td>Over 100 SKUs covering 6 categories (e.g. home products, kitchen products, personal care products)</td>
<td>7 categories including home products, apparel, home electronics, kitchen products, personal care products, food and beverage</td>
</tr>
<tr>
<td><strong>Logistics</strong></td>
<td>SF Express; JD Logistics</td>
<td>Cainiao</td>
<td>JD Logistics</td>
</tr>
</tbody>
</table>

**Source**: 100ec; modified and compiled by Fung Business Intelligence
5. E-commerce players on expansion spree overseas

In a move to expand their global presence, some large-scale Chinese e-commerce players are actively investing in overseas markets. Recently, JD Central (https://www.jd.co.th/), a joint venture between JD.com and Thailand’s Central Group, was launched on June 2018, marking the formal entrance of JD.com into the Thai market. It is reported that JD.com will soon cooperate with other ACMECS countries (Thailand, Laos, Vietnam, Cambodia and Myanmar) to operate e-commerce platforms. The five ACMECS countries are located in the center of southern Asia and possess abundant labor resources and high-quality specialty products. JD.com said that it plans to share its knowledge in running online platforms, logistics and financial services to all ACMECS countries over the next two years.

Besides serving overseas consumers, JD.com has also been working on the sourcing side to import more high-quality overseas products into China. In September 2018, JD Worldwide established offices in Tokyo and Seoul. The offices are responsible to maintain cooperation with overseas brand owners and JD Worldwide; it will also find more overseas brands which would like to sell in the China market. JD Worldwide’s sourcing capacity in Japan and South Korea is expected to increase after the establishment of the overseas offices.

Similarly, Alibaba has also stepped up overseas investment. In May 2018, Alibaba acquired DARAZ, the Pakistan e-commerce website owned by the European Internet incubator company Rocket Internet. The acquisition allows Alibaba to gain a foothold in the rapidly growing South Asian consumer market and further its expansion overseas. Alibaba said that after the completion of the acquisition, Daraz will continue to maintain the operation with its original brand name. Daraz was established in 2012 and has now become Pakistan’s most popular online shopping platform. Earlier in March 2018, Alibaba injected a further US$2 billion into Lazada as part of the group’s ongoing effort to accelerate Southeast Asia’s e-commerce development and to deepen Lazada’s integration into the Alibaba ecosystem. This brings Alibaba’s total investment in Lazada to US$4 billion in total. In 2016, Alibaba acquired control of Lazada with an investment of US$1 billion; it further boosted its stake to 83% in 2017 with another investment of US$1 billion. Lazada is a Southeast Asian online shopping giant which operates in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. In terms of logistics, Alibaba’s logistics arm Cainiao is connected to near 300 warehouses in 224 countries and regions and is able to deliver packages to Russia, France, Spain, the Netherlands and many South-East Asia countries within 72 hours.
6. Rural e-commerce continues to thrive

China’s rural e-commerce has become a new growth engine for e-commerce in China with the near saturation of urban e-commerce. In June 2018, the number of Internet users in the rural area rose to 211 million, accounting for 26.3% of the total Internet population, down from 27.0% in December 2017, according to CNNIC. The decrease in rural Internet population was due to the continual urbanization process in China. According to the China e-Business Research Center, the transaction value of rural online market is estimated to reach 1,245 billion yuan in 2017, up 39.1% yoy. Of which, online sales of physical goods accounted for 62.9% of the total, reaching 782.66 billion yuan, up 35.1% yoy; online sales of services accounted for 37.1% of the total, reaching 462.2 billion yuan, up 46.6% yoy. There are over 9.856 million rural online shop by end-2017, up 20.7% yoy.

The growth potential of the rural e-commerce market relies critically on the development of rural logistics and infrastructure. In recent years, some leading e-commerce players and Internet companies have increased efforts to expand their distribution network in rural areas. For instance, Alibaba launched its Rural Taobao initiative in October 2014 to create a network of e-commerce service centers in rural areas to provide services that enable villagers to purchase goods online, as well as sell their goods. As of July 2017, Rural Taobao already covered over 700 counties. Alibaba announced in June 2018 that it aims to expand the coverage of Rural Taobao to 1,000 counties and 150,000 villages across China in the next three years. JD.com, on the other hand, announced in June 2018 that in the next five years, it targets to open 1 million JD Convenience Stores, of which half of them will be in rural areas.

The government has been very supportive of the development of rural e-commerce. In May 2018, the Ministry of Finance issued the Notice on launching comprehensive demonstration work of e-commerce in rural areas in 2018. The Notice states that the government will continue to support the development of rural e-commerce by injecting more capital, as well as nurturing various leading counties as demonstration base to lead the development of rural e-commerce nationally. It is expected that rural e-commerce will continue to be a focus of the government in the coming years.
7. Internet and e-commerce players resort to IPO to raise capital

Several leading e-commerce players have sought IPO outside China to raise fund for expansion and product development. Exhibit 15 shows some prominent examples. Other IPOs in the pipeline include Alibaba-backed parenting online portal Babytree Inc. and leading fashion e-commerce platform Meili Inc. The former has filed for an IPO in Hong Kong in June 2018, and the latter Meili Inc. has also submitted confidential filings to the U.S. Securities and Exchange Commission in the same month for an IPO that could raise up to US$500 million.

### Exhibit 16: Selected IPOs of Chinese Internet and e-commerce players, 2018

<table>
<thead>
<tr>
<th>Company</th>
<th>Date</th>
<th>Capital raised</th>
<th>IPO location</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xiaomi</td>
<td>9 Jul, 2018</td>
<td>US$4.7 billion</td>
<td>Hong Kong Stock Exchange</td>
<td>Xiaomi will use the proceeds to invest into its ecosystem in certain product areas, support global expansion and promote research and development. Currently, Xiaomi is the world’s fourth-largest smartphone company, achieving over 100 billion yuan in annual revenue in 2017.</td>
</tr>
<tr>
<td>Pinduoduo</td>
<td>26 Jul, 2018</td>
<td>US$1.63 billion</td>
<td>NASDAQ</td>
<td>The deal is one of the largest Chinese tech IPOs of the year in the U.S. The funds raised will be used mainly to expand the company’s business operation, promote research and development, and enhance its technology infrastructure.</td>
</tr>
<tr>
<td>Meituan-Dianping</td>
<td>20 Sep, 2018</td>
<td>Around US$48.3 billion</td>
<td>Hong Kong Stock Exchange</td>
<td>Meituan-Dianping will use around 35% of the funds raised from the IPO to upgrade its technology, around 35% to develop new products and services, 20% to make acquisitions and investments, and 10% for general operation.</td>
</tr>
</tbody>
</table>

*Source: Internet resources, compiled by Fung Business Intelligence*
8. China’s first E-commerce Law launches

On 31 August, the National People's Congress (NPC) Standing Committee passed the E-commerce Law, which is to take effect on 1 January, 2019. The E-Commerce Law is formulated to safeguard the legitimate rights and interests of all parties involved in e-commerce, regulate e-commerce practices, maintain the sound order of the market, and foster the further development of e-commerce in a manner that is sustainable and healthy. The E-Commerce Law includes seven chapters with a total of 89 articles, which specifies regulations concerning e-commerce operators, contracts, dispute resolution and legal responsibilities involved in e-commerce operation.

The law puts more emphasis on the duties and obligations of e-commerce operators, while strengthening protection for consumers. In particular, e-commerce platform operators are required to assist with real-name registrations of intra-platform operators, to ensure cybersecurity, to guard the safety of the person and property of consumers, and to protect intellectual property, among other responsibilities. The law bans e-commerce operators with dominant market positions from excluding or restricting competition. Platform operators who unreasonably restrict transactions on their platforms may face a penalty of 500,000 yuan, or up to 2 million yuan in serious cases. A penalty of the same range may also be applied to platform operators if they fail to take necessary steps against IPR infringement by merchants on their platforms that they are aware of or should be aware of.

In terms of consumer protection, the law stipulates that e-commerce operators must follow related laws and regulations when collecting and using consumers' personal information. For instance, when sending advertisements to consumers, e-commerce operators shall abide by relevant provisions in the Advertising Law of the People's Republic of China. E-commerce operators are prohibited from fabricating reviews to deceive or mislead consumers. They must clearly point out tie-in sales to consumers.

To support the sound and sustainable development of the e-commerce sector, the law states that operators engaging in cross-border e-commerce (CBEC) should abide by laws and administrative regulations regarding import and export, given the rising numbers of complaints related to CBEC transactions. The law also touches upon green consumption; it says that the State Council, local governments at or above county-level as well as related departments should take measures to support and promote environmentally friendly packaging, storage and transportation in e-commerce.
III. Concluding remarks

China’s e-commerce sector is growing very fast compared to most of the rest of the world. The explosive development is driven largely by its mobile-first consumer base, fast adoption of new technologies and new business models, and prevalence of mobile payment in the country. This will continue to provide tremendous opportunities for players in the sector.

E-commerce in China is intertwined greatly with physical retailing as O2O integration is at the heart of many e-commerce operators and Internet giants. Increasing numbers of players are investing heavily in merging the online and offline world, while relentlessly building their ecosystems. Many of them are actively expanding their offline reach by partnering with physical retailers. The O2O trend is set to continue and shape the development of the sector moving forward. Meanwhile, the ongoing consumption upgrading among rural consumers will produce ample opportunities for rural e-commerce businesses. We expect e-commerce operators to further increase their presence in the fast-growing rural market.
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